

# CALIFORNIA CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY

## ENERGY FINANCING INDUSTRIAL DEVELOPMENT BOND

### PROGRAM INFORMATION

#### Goals of the CCPCFA Small-Issue Industrial Development Bond Program\*

The purposes of the California Consumer Power and Conservation Financing Authority (commonly referred to as the “California Power Authority” or “CPA”) Energy Financing Industrial Development Bond Program are to:

- 1) encourage the efficient use of California’s energy resources,
- 2) contribute to manageable energy costs for manufacturing activities in the State, and
- 3) support the manufacture and installation of renewable energy technologies and systems.

Furthermore, through the issuance of IDBs on behalf of qualified private manufacturers, the California Power Authority seeks to reduce the impact on the environment from energy use, encourage increased and successful investment in California’s manufacturing sector, and to contribute to a healthy local economy.

**\* Note: the CPA also can issue *taxable* industrial bonds, without the “small issue” IRS limitations.** Some manufacturers may find they can obtain longer-term bonds than from traditional commercial lending sources. Please call us to discuss this possibility.

#### Application Deadline and Instructions

Entities seeking to participate in the California Consumer Power and Conservation Financing Authority (the “California Power Authority” or “CPA”) Energy Financing Industrial Development Bond Program must provide the information requested in the Program Application Form. The proposed Borrower must sign the application, by which the signatory certifies that all statements in the application and on each document required to be submitted in connection therewith, are complete, true, and accurate to the best of his or her knowledge. Five copies of the completed signed application must be submitted to the CPA, together with the non-refundable application fee of \$1,250.

**Applications will be accepted until Friday, August 1, 2003 at 5 p.m.**

Please note that Sections 3 and 4 of the Application Form regarding the financing team and transaction structure are not required to be complete at the time the application is submitted. If the applicant has any of this information resolved, however, the CPA requests that this information be included with the application. However, if the financing team has not been assembled, this information may be provided at a later time. The financing team must be in place before the CPA holds a “TEFRA hearing” with respect to the project and the financing, and adopts an inducement resolution for the project.

## Tax-Exempt Eligibility Requirements for IDB Borrowers

Both federal and state statutes govern the eligibility of projects for tax-exempt Industrial Development Bond (“IDB”) financing. In addition, the California Power Authority has established eligibility requirements for the use of its Energy Financing IDB program.

### General Federal and State Requirements for Qualification

- Borrower must be a Manufacturer or Processor. Bond proceeds must be used to finance manufacturing or processing facilities and/or equipment. Generally, manufacturing or processing entails the production of tangible personal property or value added processing.
- \$10 million total capital expenditure limit, regardless of fund source. The maximum amount of a tax-exempt “small manufacturer” IDB is \$10 million per applicant per public jurisdiction. **However, included in this \$10 million maximum are the company’s other capital expenditures (from any funding source) incurred in the same public jurisdiction as the project during the period beginning three years before the bonds are issued and ending three years after the bonds are issued.**
- \$40 million nationwide maximum. The total outstanding amount of IDBs by any one company and its affiliates nationwide may not exceed \$40 million.
- Bond issues of the Authority will be subject to the secondary market disclosure rules imposed by the Securities and Exchange Commission. These rules provide exemptions, however, for bond issues of less than \$1 million, as well as for privately placed bond issues and variable rate put bond issues. Otherwise, Borrowers will be required to execute a "continuing disclosure agreement" committing to make timely "material event" disclosures, as well as an annual disclosure. The scope of the annual disclosure responsibility will depend on the nature of the Borrower.

### California Power Authority Eligibility Requirements and Restrictions

- Borrowers must fall into one of the following categories of manufacturer:  
**Category 1** — General manufacturing companies that will use the proceeds for the purchase and installation of renewable energy systems, energy-efficient equipment, or clean distributed generation systems on their own site(s); or  
**Category 2** — Companies engaged in the manufacture of renewable energy components or systems, or clean distributed generation systems or components.
- Minimum loan size is \$ 2,000,000.
- Maximum loan size is \$10,000,000.
- Proceeds must be used to finance eligible capital expenditures for eligible systems or technologies, as defined in the attachment hereto entitled “Eligible Equipment and Technologies.”

### Restrictions on Use of IDB Bond Proceeds

- Use of bond proceeds should begin within the current calendar year, and all proceeds must be spent within three years of bond issuance.
- At least 95% of the bond proceeds must be used for qualified capital costs of the defined project.
- At least 75% of the assets purchased or constructed with bond proceeds must be for actual manufacturing/production/energy improvements.

- No more than 25% of the bond proceeds may be used for the purchase of land.
- No more than 2% of the bond proceeds may be used to pay costs of issuance, such as bond counsel, underwriters' fees, rating agency fees and trustee fees. Issuance costs in excess of the 2% cap must be paid by the Borrower.
- If bond proceeds are used to acquire an existing building, the building must be rehabilitated, within two years, by an amount equal to at least 15% of the portion of the building cost financed with the bonds.
- Fees paid to the CPA and/or other State agencies must comply with certain arbitrage restrictions.

The information regarding general requirements and limitations provided above is intended as a summary of some of the major restrictions relating to IDB financing. Please note that the CPA has retained counsel who will serve as bond counsel for all financings issued under this program.

### **IDB Financing Process**

The IDB financing process can generally be accomplished within 120 days. The major steps in the process are outlined below.

- Application submittal and evaluation
- Inducement Resolution adopted by California Power Authority
- Assemble financing team (if not in place at time of application)
- Secure letter of credit commitment from bank (if applicable)
- Publicly-noticed Tax Equity and Fiscal Responsibility Act ("TEFRA") hearing and approval
- Completion of bond counsel small issue IDB questionnaire
- Preliminary bond documents
- Final resolution adopted by California Power Authority
- Final bond documents
- Bond sale
- Closing/funding
- Annual status report to CPA

### **IDB Financing Program Fees**

Application Fee: \$1,250.00 nonrefundable fee due at time of application

CPA Issuance Fee: 0.5% of par amount

Total Cost of Issuance: This ideally will not exceed 2% of the loan amount, depending upon the actual loan value. Total costs cover bond counsel, underwriting, rating agency or bond insurance, and trustee fees.

## California Power Authority Issuance Policies and Requirements

The California Power Authority will consider applications from borrowers of any credit rating. In considering applications, the CPA will evaluate the appropriateness of the proposed transaction structure in the context of the credit quality of each borrower. As a general guideline, the CPA would anticipate that any debt that is to be publicly offered without a letter of credit or other form of credit enhancement would carry a minimum credit rating of “A-”. For transactions falling below an “A-” rating or for unrated transactions, the CPA would require that the debt be sold only to qualified institutional buyers through a private placement.

### Evaluation Criteria

Factors that will be considered by the California Power Authority in evaluating applications for the IDB Program will include:

- Financial viability of the Project and Applicant
- Level of public benefit — clean energy/production capacity gains per bond dollar invested
- Readiness of the project—ability to proceed in a timely manner, with all necessary approvals and clearances.

#### *Financial Viability of Project*

The California Power Authority will consider the funding of projects whose payback period occurs within the expected useful life of the improvements to be financed. In order for bond funds to be underwritten, the financial strength of the applicant is very important. Evidence of revenues and manufacturing experience is essential.

#### *Level of Public Benefit*

The CPA will give funding preference to those projects that produce the most clean energy/production capacity gains per dollar of bond proceeds invested in the project, as documented by applicant’s response to Parts 3 and 6 of the Application.

#### *Readiness of the Project*

Projects selected for funding must be able to meet the CPA’s requirement to issue all bonds under the Energy Financing Program by November 14, 2003. Applicants must demonstrate that local permits, regulatory approvals if any, etc., have been secured or are in process. In addition, borrowers must meet the spending guidelines applicable to IDB proceeds, as noted above under “Restrictions on Use of IDB Bond Proceeds.” The project must begin within one year from the date of issuance of the bond funds and repayment must begin within three years of issuance.

### Application Materials Public Information

Information submitted to the CPA in the Application or supplemental thereto may be subject to the Public Records Act or other disclosure. The CPA may make such information public. ***The CPA will maintain as confidential certain financial information, but cannot guarantee confidentiality. Any such information should be clearly labeled as “Confidential Business Information” and submitted as physically separate attachments or documents.***

Applicants must agree to hold the CPA, its members, officers, agents, and employees harmless from any matters arising out of or related to the award Allocation or the award process.